

AR36



International Paper Annual Report 1967



Cover Glistening raindrops on the needles of a loblolly pine at I-P's Southlands Experiment Forest reflect tiny inverted images of a superior-tree orchard. I-P's pioneering research in forest genetics is conducted at Southlands. By 1974 every one of the millions of seedlings planted each year on our Southern pine plantations will be genetically improved supertree stock.

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Malcolm G. Chace, Jr.	<i>Chairman of the Board, Berkshire Hathaway Inc.</i>
George Champion	<i>Chairman of the Board, The Chase Manhattan Bank, N.A.</i>
Leonard Dalsemer	<i>Executive Vice-President</i>
Lamar M. Fearing	<i>Senior Vice-President</i>
Judson Hannigan	<i>Vice-President</i>
Edward B. Hinman	<i>President and Chief Executive Officer</i>
Harvey P. Hood	<i>Chairman of the Board, H. P. Hood & Sons, Inc.</i>
John F. Howden	<i>Vice-President</i>
Frederick R. Kappel	<i>Chairman of Executive Committee, American Telephone and Telegraph Company</i>
Lawrence B. Kelley	<i>Vice-President</i>
John M. Kingsley	<i>President, Bessemer Securities Corporation</i>
Donald B. Lourie	<i>Chairman of the Board, The Quaker Oats Company</i>
J. Finley McRae	<i>Chairman of the Board, The Merchants National Bank of Mobile</i>
Joseph P. Monge	<i>Vice-President and Treasurer</i>
Herman C. Nolen	<i>Director, Foremost-McKesson, Inc.</i>
Robert W. Stoddard	<i>Chairman of the Board, Wyman-Gordon Company</i>
Geo. T. Ward	<i>Executive Vice-President</i>

Directors Emeritus

John H. Hinman	<i>Chairman Emeritus</i>
Richard C. Doane	<i>Former Chairman of the Board</i>
Percy J. Ebbott	<i>Retired Vice-Chairman, The Chase Manhattan Bank, N.A.</i>
William J. Murray, Jr.	<i>Director Emeritus, Foremost-McKesson, Inc.</i>
B. A. Tompkins	<i>Financial Consultant</i>

Officers

Edward B. Hinman	<i>President and Chief Executive Officer</i>	
Leonard Dalsemer <i>Executive Vice-President</i>	Geo. T. Ward <i>Executive Vice-President</i>	Joseph P. Monge <i>Vice-President and Treasurer</i>
Lamar M. Fearing <i>Senior Vice-President</i>	Paul B. Carroll <i>Secretary and General Counsel</i>	
<i>Vice-Presidents</i>	<i>Comptroller</i>	<i>Assistant Secretaries</i>
E. E. Ellis	Eric M. Hart	R. H. Allen
Arthur P. Foster	<i>Auditor</i>	F. Winifred Brown
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Fred C. Gragg	<i>Assistant Treasurers</i>	Lee Hopkins
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William S. Snyder		
John L. Tower		

Highlights

1967

1966

Sales	\$1,414,494,643	\$1,450,061,645
Net Earnings	\$88,785,909	\$105,221,821
Per share of common stock	\$2.03	\$2.40
Depreciation and Depletion	\$77,001,677	\$79,696,763
Per share of common stock	\$1.77	\$1.83
Provision for Income Taxes	\$47,300,000	\$83,100,000
Per share of common stock	\$1.09	\$1.90
Cash Dividends Paid on Common Stock	\$58,836,175	\$54,013,291
Per share of common stock	\$1.35	\$1.23 ^{3/4}
Common Shareholders' Equity	\$1,034,373,376	\$1,009,069,081
Per share of common stock	\$23.79	\$23.13
Working Capital	\$235,312,004	\$278,359,831
Net Plants and Properties	\$797,319,497	\$652,974,118
Long-term Liabilities	\$177,810,265	\$76,553,569
Production:		
Paperboard, paper and market pulp — tons	6,223,347	6,386,288
Lumber — thousands of board feet	244,411	188,992
Plywood and veneer — thousands of square feet	340,501	341,843
Insulating and building board — thousands of square feet	132,081	134,311
Number of Shareholders at December 31	91,568	81,208
Number of Full-time Employees at December 31	52,019	53,269
Payroll and Employee Benefits	\$439,180,068	\$408,325,701

To Our Shareholders

Sales and earnings of the International Paper Companies declined during 1967 from the record levels established in 1966.

Net earnings for the Companies of \$88,785,909 (\$2.03 a share) were down 15.6% from 1966 earnings of \$105,221,821 (\$2.40 a share). Sales were down 2.5%, amounting to \$1,414,494,643 in 1967, compared with \$1,450,061,645 in 1966.

The high rate of economic growth in the North American economy achieved in 1966 did not continue through 1967 and the slackening that occurred exceeded predictions. Reflecting this slower growth rate, inventory levels were reduced throughout the paper industry's markets in 1967 and, for the first time in almost ten years, paper mill production in North America declined. This came at a time when there were substantial increases in capacity for the North American industry. These conditions resulted in curtailment of our production, virtual elimination of our backlogs and some losses of efficiency.

Prospective home buyers and builders continued to be cautious in view of high interest rates and general tightness in mortgage money. The building-materials segment of our business, as a result, continued to be depressed during 1967, but we are encouraged by increased housing starts since the turn of the year.

Our Companies converted a record amount of their primary production of packaging grades of paper and paperboard in 1967 — 1,346,062 tons, an increase of 6.3%.

While export shipments of primary products from our U.S. mills were up substantially, overall exports by our Companies of 1,033,156 tons were up only 3.5%, due in part to the effect of the continuing austerity program in the United Kingdom.

The Company benefited from a substantial increase in the 7% investment tax credit and from lower depletion costs during 1967. However, these benefits to earnings were offset by provisions for start-up costs and depreciation on new facilities and by increased interest expense.

Capital Investment Programs: The capital programs instituted late in 1965 were substantially completed by the end of 1967. In addition to further steps in our programs to reduce costs through modernization and installation of latest technological improvements, the Companies brought into successful production four major paper and board manufacturing units to meet projected future growth in customer demand in North American and overseas markets.

Capital expenditures by International Paper and its consolidated subsidiaries totaled \$238,483,421, compared with \$199,932,163 in 1966. It is estimated that capital expenditures for 1968 will total \$180,000,000.

Re-evaluation of I-P's Land Policies: Improved methods and analyses for determining timber quantities have indicated that our inventories of standing timber on our forest lands in the United States are greater than we had previously recognized. Accordingly, our cost per cord has been reduced to reflect the increased stands of timber on our lands. These same studies made it apparent that our wood resources would support increasing annual cuts. We have already stepped up wood harvesting from our own lands. Earnings will benefit this year and increasingly in the years ahead from the reduction of our unit wood costs and the increased utilization of this low-cost resource.

In addition, more intensive exploitation of some of the non-timber potential of our lands is being examined. A more active search for oil, gas and other mineral resources and plans for development of some of our lands for such uses as residential and commercial building and commercial recreation opportunities are part of the effort to increase earnings.

These moves do not reflect a departure from our long-range objective of forest management for sustained-yield production of timber crops.

Labor Negotiations: During 1967 three-year labor agreements were negotiated in the Company's Southern and Northern pulp and paper mills and in most of our converting operations. New agreements are to be negotiated this spring with the unions representing employees in the mills of Canadian International Paper Company. The Long-Bell Division's labor agreement and the agreement covering the mill at Gardiner, Oregon, will not expire until 1969.

The Year Ahead: Most economists predict a year of rising business activity in the United States with demand for paper resuming its long-term upward growth trend.

The predicted improvement in U.S. demand over 1967 is expected to absorb some of the surplus capacity presently in the market. However, overall operating rates in the North American paper industry are not expected to improve in 1968 and competition is expected to be keen throughout the year.

For your Companies, costs will be higher and, due to the drop in capital completions this year, we expect only about one-half as much benefit from the 7% investment tax credit as in 1967, when it reached \$14,627,456.

On the other hand, with a rising economy we fully expect our volume to increase. There will be no major start-up charges, and we will be realizing increasing benefits from our new additions, from our modernization and technological improvements completed last year and from greater utilization of our forest resources.

Taking all these factors into account, but without consideration of a possible tax increase or the impact of changes in the international situation, we expect improvement in earnings in 1968.

Special Progress Report: During the past several years the Company has developed a number of interesting applications of computer technology—many of them unique. In the center of this report we have included a special Progress Report on these computer applications and an indication of the role they are playing in the development of new systems of management planning and control.

Executive Advisory Committee: Early in 1968 an Executive Advisory Committee of the Board of Directors was appointed to advise with the Chief Executive Officer on our overall planning and future development. Members of the Committee are: Frederick R. Kappel, Chairman, Harold Boeschenstein, Malcolm G. Chace, Jr., George Champion and John M. Kingsley.

A Word about People: Your Companies' future depends on its people—they are the most vital asset in our present and planned development. Your management is emphasizing the development of more effective programs for recruiting, training and advancing personnel, and improving our long-range manpower planning.

The Board of Directors joins me in expressing our sincere thanks to all the men and women of International Paper Company for their contributions during the past year.

E.B. Hinman
President

International Paper Companies

Primary Production (tons)

	1967	1966
Paperboard:		
Container board	1,659,740	1,684,181
Bleached board	848,346	910,865
Total Paperboard	<u>2,508,086</u>	<u>2,595,046</u>
Newsprint	1,242,672	1,249,065
Other Papers:		
Fine and printing paper	731,101	780,794
Industrial paper and miscellaneous	638,012	614,312
Total Other Papers	<u>1,369,113</u>	<u>1,395,106</u>
Market Pulp	<u>1,103,476</u>	<u>1,147,071</u>
Total	<u>6,223,347</u>	<u>6,386,288</u>

Pulp figures include shipments to mills of the Companies for their own use as follows: 122,062 tons in 1967 and 77,531 tons in 1966.

Converted Paper Products (tons)

1967	1,346,062
1966	1,266,835

Substantially all of this converted tonnage was fabricated from board and paper produced at the Companies' own mills and included in the Primary Production table.

Building Materials

	1967	1966
Lumber (thousands of board feet)	244,411	188,992
Plywood and Veneer (thousands of square feet — $\frac{3}{8}$ -inch basis)	340,501	341,843
Insulating and Building Board (thousands of square feet — $\frac{1}{2}$ -inch basis)	132,081	134,311

Ten-Year Summary of Production (tons)

Year	Paperboard and Paper	Market Pulp	Total
1967	5,119,871	1,103,476	6,223,347
1966	5,239,217	1,147,071	6,386,288
1965	4,676,689	1,103,754	5,780,443
1964	4,548,701	1,135,036	5,683,737
1963	4,289,721	980,017	5,269,738
1962	4,184,144	852,175	5,036,319
1961	4,087,181	768,347	4,855,528
1960	4,033,754	675,782	4,709,536
1959	4,087,308	646,932	4,734,240
1958	3,726,766	612,182	4,338,948

Operating Review

Capital Investment Programs

Current Projects

During the past two years the International Paper Companies have been engaged in a \$440 million capital investment program principally designed to accelerate cost reductions through technological improvements at our existing mills and plants and to supply new capacity to meet projected increases in customer demand.

This two-year program was substantially completed by the end of 1967. The benefits from these capital expenditures will be felt increasingly during 1968 as facilities complete their start-up periods and come fully on-stream.

New Primary Units: In the United States three major units came into production at the end of the year. A machine manufacturing bleached printing and business grades is in production at the completely rebuilt Louisiana mill, and a machine for the production of lighter weight coated publication papers designed to help offset increased postal rates was added at the Androscoggin mill. At the new Vicksburg mill the single machine manufacturing linerboard has had a good start-up. Markets served by these large, new paper machines are among the fastest growing in the industry.

Canadian International Paper Company has started up the corrugating medium mill at Matane on the Gaspé Peninsula. The mill was planned primarily to meet the requirements of C-I-P's own converting plants.

The Tahsis Gold River Pulp Mill: The Tahsis Company Ltd. Gold River mill on Vancouver Island started production of

bleached kraft pulp last summer. Tahsis is a jointly owned subsidiary of Canadian International Paper Company and The East Asiatic Company (Canada) Ltd. The mill has demonstrated its ability to produce top-quality pulp, but there have been start-up problems and the mill has not yet operated at full capacity. International Pulp Sales Company markets the new mill's output in U.S. and overseas markets.

Modernization and Technological Improvements: A main emphasis of the capital program at our U.S. mills was cost reduction through technological improvements and modernization. This has involved, among other projects, installation of large, high-capacity chemical recovery boilers at four Southern mills to replace a number of small, less efficient units; completion of a 306-foot continuous digester at Natchez for the manufacture of dissolving pulp; and speed-up of two major paper machines. At three Southern mills, woodyards were also modernized to improve wood handling and reduce costs.

Long-Bell: At Malvern, Arkansas, our Long-Bell Division will start production late in the first quarter of 1968 at a plant manufacturing flakeboard to serve rapidly growing demand from home and commercial builders and the furniture industry. Flakeboard is a composite material made up of sawmill residues and shavings with a resin binder.

An extensive modernization of the Gatineau mill in Quebec is continuing. This includes installation of a large newsprint machine, modernization of a second newsprint machine and installation of the Companies' first refiner groundwood mill. In this new process, groundwood pulp of high quality and uniformity will be produced by refiners using wood chips instead of by conventional grinders.

In the United States we are moving forward with our plan to replace the printing and business paper mill at Ticonderoga with a large, modern mill scheduled for operation in 1970. The new mill will be located within a few miles of the present site. Our experienced and skilled employees will transfer to the new mill.

Plans were announced during the year for construction of a bleached paper and paperboard mill at Texarkana, Texas. Work on the plans for this mill is going forward.

Converting Plants: New shipping container plants were opened during the year in Baltimore and Detroit. A new corrugator was installed at Whippany, New Jersey, replacing two smaller units, one of which was moved to our plant at Presque Isle, Maine.

Two additional shipping container plants are being constructed this year — one in the Metropolitan New York area, the other in Murfreesboro, Tennessee, near Nashville.

Two new plants for the manufacture of plastic-coated *Pure-Pak*® paperboard milk

containers are being constructed — one near New York, the other in Bastrop, Louisiana, replacing the old milk-container plant there.

Our Container and Single Service Divisions have made good progress in expanding the markets for their products. The rigid-when-wet container originally introduced for shipping fresh poultry has been adapted for use in shipping a variety of vegetables and fruits that must be shipped on ice. Additional uses for our *Pure-Pak*® containers are also being found. These include commissary feeding and such non-dairy products as sugar, candy and soft drink syrups for soda fountain dispensers.

A new consumer packaging product was added late in 1967 with the start-up of a plant in Pine Bluff, Arkansas, to manufacture egg cartons from molded pulp.

Since 1957 our multiwall sack and shipping container manufacturing operations in San Jose, California, have occupied the same building. Now a separate plant for the manufacture of multiwall sacks has been completed and is in production in San Jose. The move provided needed room for expansion for both of these operations.

Two grocery and specialty bag plants to supply the growing demand by supermarkets are also scheduled for completion

during 1968 — one near Richmond, Virginia, specially designed for the production of grocery sacks, the other in the Mobile area, replacing the grocery and specialty bag facilities in the Mobile mill.

The Lord Baltimore Press at its folding box plant in Baltimore is adding warehouse facilities incorporating advanced automated equipment designed to reduce costs of materials handling.

During the summer our specialty coating plant in Phoenixville, Pennsylvania, was sold to SCM Corporation. We are continuing to work in the development of base stocks and coating techniques for the office copying field and we are concentrating our principal efforts in this field in supplying base coating papers.

In Canada, C-I-P Containers Limited constructed a packaging plant at Markham, Ontario, scheduled to be in production in the spring of 1968. In addition to corrugated containers, this plant will produce *Pure-Pak*® plastic-coated milk containers, a new product line for C-I-P.

Phase Out of Obsolete Units: In April 1967 our mill at Niagara Falls, New York, was permanently shut down, removing six inefficient machines from production. Later in the year at the Louisiana mill a 70,000-ton-per-year linerboard machine, which had become obsolete, was retired and scrapped.

In connection with the modernization program at the Gatineau mill, a marginal sulphite pulp machine is scheduled to be phased out this spring.

The Company is constantly working to improve control over discharges into the air and water. Specialized personnel have been assigned to keep abreast of evolving research technology and the application of new equipment to our particular problems. We are continuing our research efforts and our support to industry organizations doing fundamental research on the problem.

New manufacturing units of the Companies recently completed, under construction or being planned include up-to-date methods and equipment for controlling air and water quality. We have worked in close cooperation with governmental agencies in developing control systems. An example of such cooperation is found in the new Vicksburg mill, which is designed to operate with minimum emissions to the atmosphere and to meet the latest stream quality objectives.

A Strategic Planning Committee, consisting of senior corporate officers assisted by a Strategic Planning Office, has been formed to coordinate and give impetus to the vital function of charting the course of I-P's future growth so as to maximize profits.

The Strategic Planning function is to assist top management in evaluating opportunities for growth and to test various alternative courses for utilizing the resources of the Company. In order to use the talents of our organization more broadly, the Strategic Planning Office is working with a new system of Business Teams, composed of top and middle management people who are being asked to review in depth various areas of the Company — both short and long term.

Recent improvements in rayon products resulting from advances in dissolving pulp quality and in rayon manufacturing techniques have increased demand for rayon staple fiber. International Paper is a major producer of top-quality staple fiber pulps, including our *Multicell®* pulp, which is used extensively for high-quality yarns and textiles.

An important technological breakthrough has added a new market area for International Pulp Sales. Using a patented process developed by our Southern research organization, the dissolving pulp mill at Natchez is now producing a kraft hardwood pulp, *Acetakraft™*, for sale to manufacturers of cellulose acetate fibers and plastics. Cellulose acetate and triacetate yarns are manufactured by major textile fiber producers.

The fiber most commonly used in cigarette filters is also made from acetate pulp.

Until the development of *Acetakraft™* by our research organization, only cotton linters and softwood sulphite pulps could be used for these products.

Our knowledge of the technologies related to the basic papermaking process has helped us in our development of disposable products and non-woven materials. Using our mill at York Haven, Pennsylvania, as a pilot plant, we have conducted with encouraging results trial runs of non-woven materials with textile qualities.

A group has been organized within the Company to conduct a more intensive technical and market development program. To direct this program, an executive with outstanding experience in related marketing fields has been brought into the Company.

Facelle Company Limited of Toronto, a subsidiary of C-I-P, has continued to expand the markets for its popular *Facelle®* line of consumer tissue products, which includes facial and bathroom tissues, towels and napkins, and disposable diapers. These products are distributed on a national basis in Canada. The *Facelle®* disposable diapers, *Flush-A-Byes®*, are being marketed in selected areas in the United States.

Expanding Overseas Effort

One of our fastest-growing segments is the Overseas Division, which has responsibility for overseas sales of certain of the Company's U.S. products and for supervision of investments in foreign affiliates. To support the aggressive development of its operations, organizational changes have been made in the Overseas Division. An executive with a broad background of experience in foreign manufacturing and marketing operations joined the Company early in 1968 as President of the Division.

Export shipments again rose during the year. A total of 1,033,156 tons of primary mill products was shipped to overseas markets from our North American mills, a new high level for the Companies. Export sales from the U.S. mills rose 6.6% to \$118,020,000, a substantial contribution to the U.S. balance of payments.

It was announced late in the year that the Company is participating in a study of the feasibility of a proposed \$77 million forest products complex in Honduras. Other participants include large banana producers as well as development banks. **An Advanced Concept in Ocean Shipping:** During the year our Company and the Central Gulf Steamship Corporation jointly developed a more efficient method for the overseas shipment of linerboard and market pulp from our Southern mills. The procedure involves construction of a freighter of special design on which 73 preloaded barges will be carried to overseas ports. On arrival at a foreign port, a built-in crane will discharge the loaded barges, which will then be towed to customers through inland waterways. This system is expected to become operative in late 1969, when the first of these new oceangoing vessels will become available. Central Gulf will operate the system.

Research Plans

Responsibility for Corporate Research has been assigned to the Strategic Planning Committee in order to assure coordination between our research programs and the Strategic Planning function.

Construction work on the new Corporate Research Center at Sterling Forest, New York, is on schedule and key staff positions are being filled. It is scheduled for completion this fall.

The Center will be staffed by about 200 scientists, engineers and technicians, many of whom will come from outside the pulp and paper industry. We believe our basic resource, the cellulose polymer, has potential that can be unlocked and that the background developed in such fields as chemical and petroleum research can well provide technological guidance for research in this field and other areas of our business.

Advanced research programs will also be instituted at Sterling Forest to improve the competitive position and profitability of our present business and to help us enter new markets. Product improvement programs and customer technical service research will be handled in our divisional research laboratories, and in Canada by C-I-P's subsidiary, International Cellulose Research Limited.

A Look at Forest Policies

We are continuing our basic land management policy of stressing the growth of wood. However, with substantial reserves of timber now available to back up our operations, we are cutting increasing amounts of our own low-cost wood from the 6.5 million acres of land we own in the United States.

Our program for the establishment of new pine plantations, which we began 20 years ago, is continuing, and our plans include substantial increases in our annual plantings. By 1974 all of the seedlings planted on our lands will be produced from genetically improved seeds developed in our superior-tree nurseries.

We are also examining ways to improve the earnings from some of our forest lands by more intensive exploitation of uses other than growing and harvesting trees. For many years we have derived some revenue from bonuses, rentals and royalties, principally involving oil and gas. We have now initiated a more intensive search for oil, gas and other mineral resources. We are also studying the potential values of some of our lands for residential, industrial, agricultural and recreational use.

Sales and Earnings: Sales of the International Paper Companies in 1967 totaled \$1,414,494,643, a decrease of \$35,567,002 or 2.5% from 1966 sales of \$1,450,061,645.

Net earnings amounted to \$88,785,909 (\$2.03 a common share), a decrease of \$16,435,912 or 15.6% from \$105,221,821 (\$2.40 a common share) in 1966.

Cash Dividends: Quarterly dividends for the year 1967 were at a rate of 33 $\frac{3}{4}$ cents a common share, providing a total for the year of \$1.35. For the full year 1966, dividends per common share totaled \$1.23 $\frac{3}{4}$.

Dividends paid in 1967 amounted to \$58,836,175 on the common stock and \$475,760 on the preferred stock, or a total of \$59,311,935. Dividends paid in 1966 amounted to \$54,494,151.

Capital Expenditures: Capital expenditures of the Company and its consolidated subsidiaries—in the United States, in Canada and overseas—totaled \$238,483,421 in 1967, compared with \$199,932,163 in 1966.

Debt: To support present and future capital programs, the Companies have arranged to borrow \$330 million in long-term debt under three separate loan agreements. The borrowings will be for 20 years, with repayments beginning in 1972.

The first loan, amounting to \$150 million, was from two major insurance companies and as of the end of 1967, \$130 million had been received with the balance due early in 1968. The interest rate is 5 $\frac{1}{8}$ %. A second loan, also amounting to \$150 million and from the same two sources, will be received during 1968 and 1969. The interest rate is 6 $\frac{3}{8}$ %.

Under a separate agreement, Canadian International Paper Company in September 1966 borrowed \$30 million at an interest rate of 5 $\frac{7}{8}$ %.

Other long-term debt of \$17,810,265 represents principally local borrowings of our Italian subsidiary, SILCA.

At December 31, 1967, the Company had short-term bank loans amounting to \$62,500,000.

Depreciation and Depletion: Depreciation and depletion in 1967 was approximately \$2.7 million less than in 1966, due largely to a reduction in depletion costs reflecting lower depletion rates. The lower depletion rates take into account an increase in the volume of standing timber on our U.S. lands as developed by improved methods and analyses for determining timber quantities.

Working Capital: Working capital at December 31, 1967 amounted to \$235,312,004, a decrease of \$43,047,827 from December 31, 1966.

At December 31	1967	1966
Cash and equivalent	\$ 50,437,762	\$ 90,179,662
Receivables	182,289,157	175,574,134
Inventories	207,787,663	190,176,907
Total current assets	440,514,582	455,930,703
Current Liabilities	205,202,578	177,570,872
Working Capital	\$235,312,004	\$278,359,831

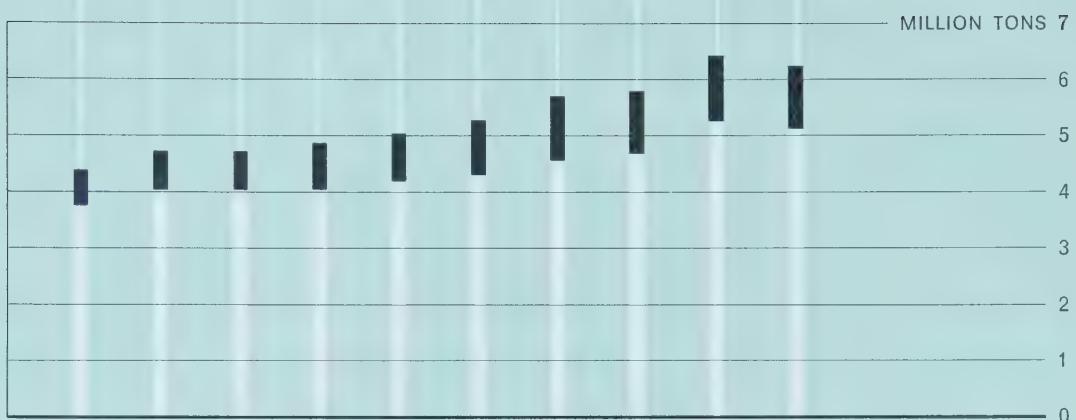
Taxes: Taxes based on income amounted to \$47,300,000 in 1967, against \$83,100,000 in 1966. The 1967 taxes on income reflected a 7% investment tax credit of \$14,627,456, compared with \$2,820,102 in 1966.

Treasury Stock: At the end of 1966, the Company held 109,149 shares of common stock in the treasury. During 1967, 148,600 additional shares were purchased. All purchases have been made under restrictions to minimize any effects on the market.

1958 1959 1960 1961 1962 1963 1964 1965 1966 1967

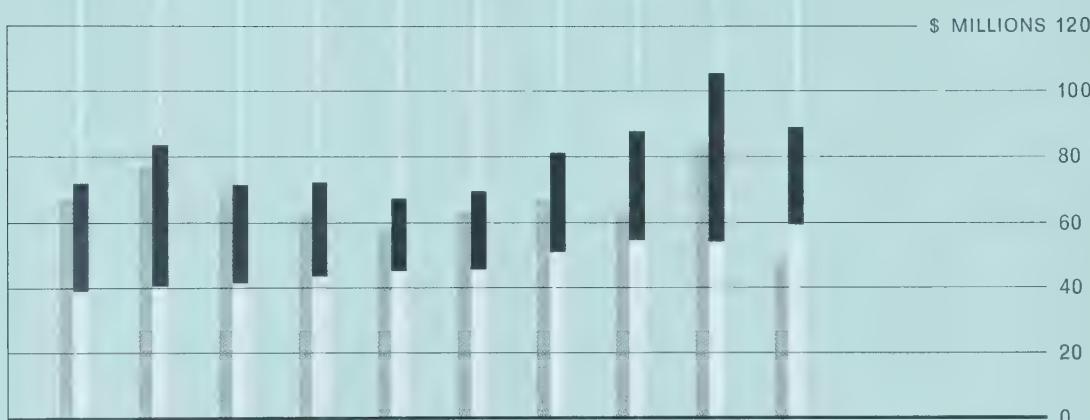
Annual Production

- Market Pulp
- Paperboard and Paper



Net Earnings and Taxes Based on Income

- Net Earnings:
 - Retained
 - Paid as cash dividends
- Taxes



Working Capital

(December 31)



1958 1959 1960 1961 1962 1963 1964 1965 1966 1967

	The Cover	The Text Pages	The Envelope
Paper	Moss Point Coated Bristol™ Coated two sides	A New Development Paper Coated two sides	Gator-Hide®
Finish	Gloss	Gloss	Standard
Weight	24 x 36 — 153/500, 10 point caliper	25 x 38 — 80/500	17 x 22 — 32/500
Made at I-P's	Moss Point, Mississippi mill	Moss Point, Mississippi mill	Louisiana mill in Bastrop
Printing Process	Offset lithography	Offset lithography	Offset lithography
	The base stock of this new printing grade is made with an unusual levelness of surface, which is reflected in a coated sheet that imparts a smooth feel and a high gloss. A uniform affinity for ink gives consistently top printing performance. This economical, all-purpose bristol has excellent folding qualities, a high bright color and toughness, and is ideal for die-cutting. The covers have been lacquered.	The text pages in this report have been produced from a new coated paper currently in limited production at our Moss Point mill. The optical and surface qualities of this paper provide for outstanding color reproduction and high press performance. This paper will join the I-P family of fine printing papers in 1968, adding an important new dimension to our line of papers for quality reproduction in the graphic arts.	This smooth, bleached kraft paper, with good printability, is especially suitable where the qualities of strength and high brightness are required. It is also available in golden, manila and gray, and in other weights. It can be used with outstanding results in any of the three principal printing processes — offset lithography, letterpress or gravure. It has long been recognized as a top-grade paper of proven performance.

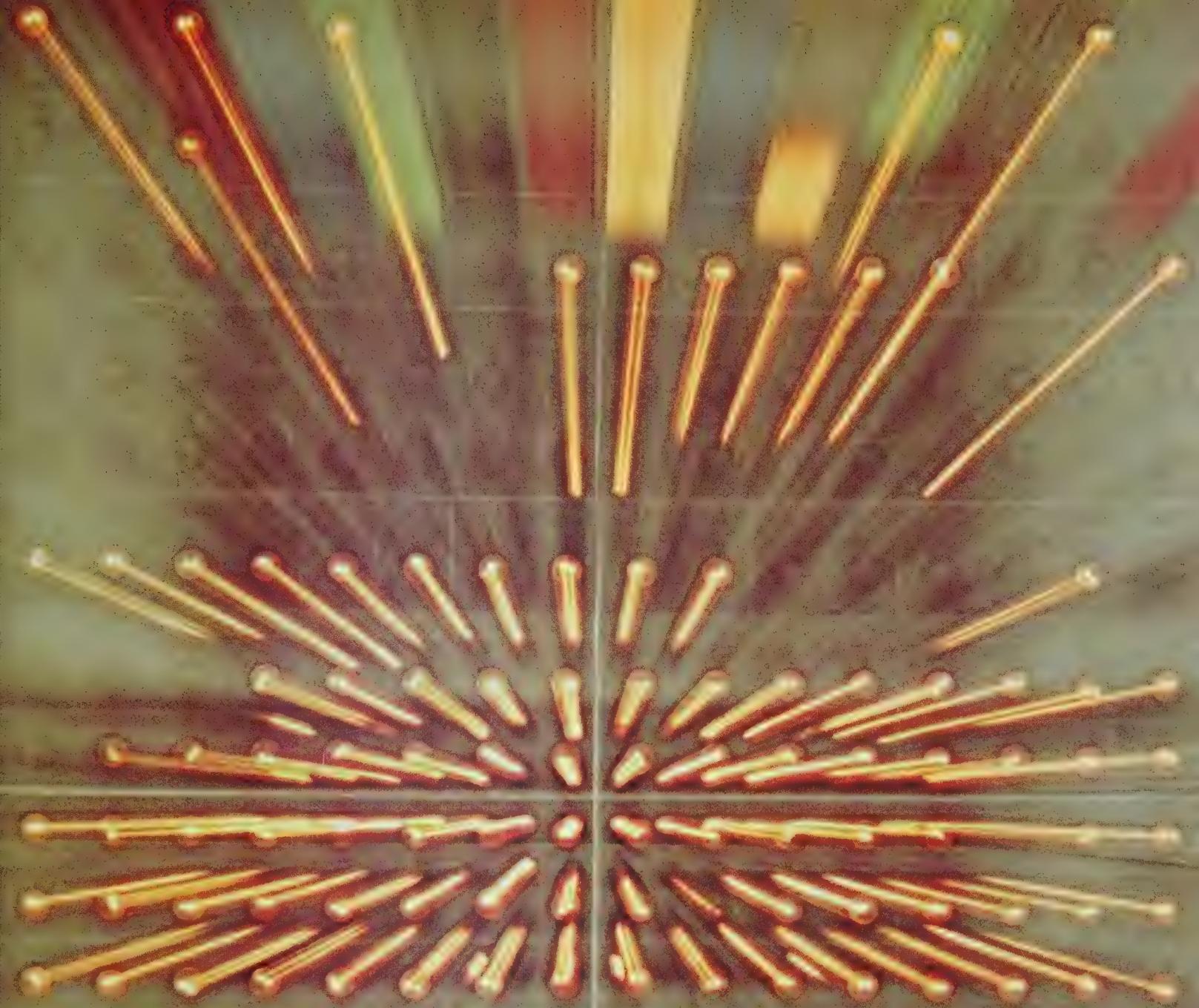
Major Photography: Arthur Schatz

The typeface for this report is *Permanent*, a new design by the noted European artist-calligrapher, Karlgeorg Hoefer. This subtle sans serif type was chosen for its clarity and legibility, particularly of the numerals, and for the ease of reading it brings to extended text sections. The hand-set lines were composed from type cast in West Germany; the linecasting from matrices imported from Italy.

Printed in U.S.A.



This is an International Paper Company trademark



Control through Computer Utilization at



The Computer and Our Business Planning American business is hardly 15 years into the era of the computer—but it is already clear that the computer is reshaping American business.

The computer has been described as having “more beneficial potential for the human race than any other invention in history” and its impact on our lives has been compared with that of the Industrial Revolution. There is strong evidence, at this point in the second decade of the computer era, that these judgments may not be exaggerated.

International Paper has been associated with the growth of the data processing industry since the early 1940's. In addition to tabulating card stock, we supply a growing volume of specially engineered multiple-form papers to meet the print-out requirements of the information explosion triggered by the computer.

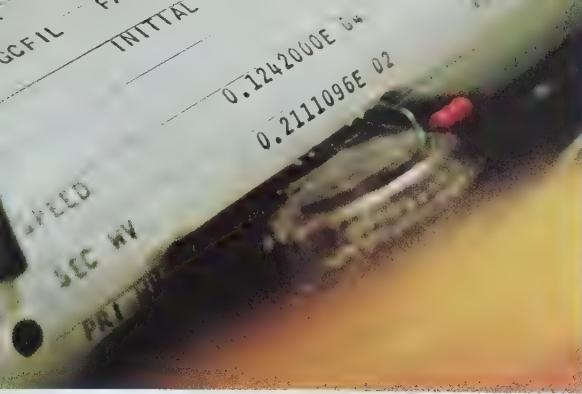
As electronic computers were adapted for storing and processing the basic payroll and other accounting figures of business, we installed a number of these early computers in our offices and manufacturing facilities.

Early in the 1950's our Container Board Division developed by hand in a laborious process a distribution model of their production facilities and markets using a technique similar to that used in computer studies today. When modern computers later became available, this study was computerized. It was later adapted by our Canadian subsidiary to study newsprint markets and by our Southern Woodlands organization to study the logistics of procuring pulpwood and controlling wood inventories at our Southern mills. These innovative studies were among the first to explore the capabilities of the com-



These geometric symbols are part of the language of computer programmers and are used to indicate functions performed by computers. We have borrowed them as a design theme and to introduce the sections of this Progress Report.





puter as a management tool rather than an accounting device. They were our introduction to modern computer technology and systems planning.

This Progress Report to shareholders summarizes six special uses of our \$10 million computer network. These applications are being made within our U.S. organization. In our Canadian subsidiary and elsewhere computers are also being used. These new systems are transforming our business planning methods. New techniques of measuring, collecting and manipulating data provide an information base from which to direct and control our operations and growth.

One final note. Essentially every task digital computers, such as ours, perform is done in mathematical codes. Working in these codes computers can process, commit to memory, retrieve and print out millions of calculations every minute. This leads to an added benefit. To utilize computer capability, operational and planning techniques must be reduced to a series of logical steps that can be translated into these basic computer codes. A management that has successfully accepted this mathematical discipline is a management better equipped to deal with the complexities of modern business.

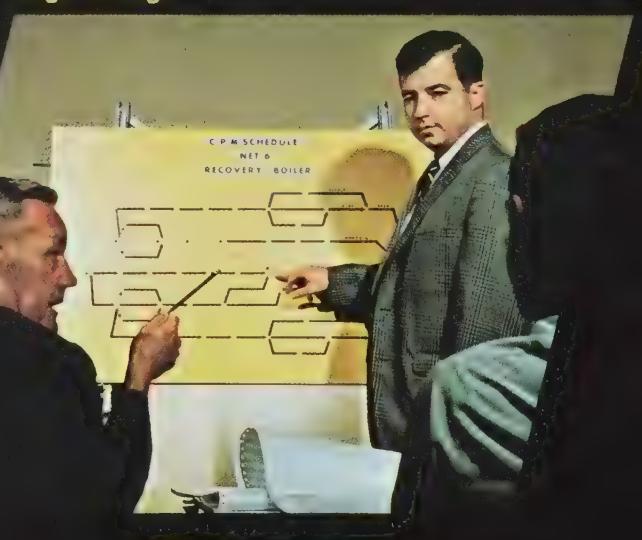
Telecommunications



Woodlands Information System



Engineering



Process Control

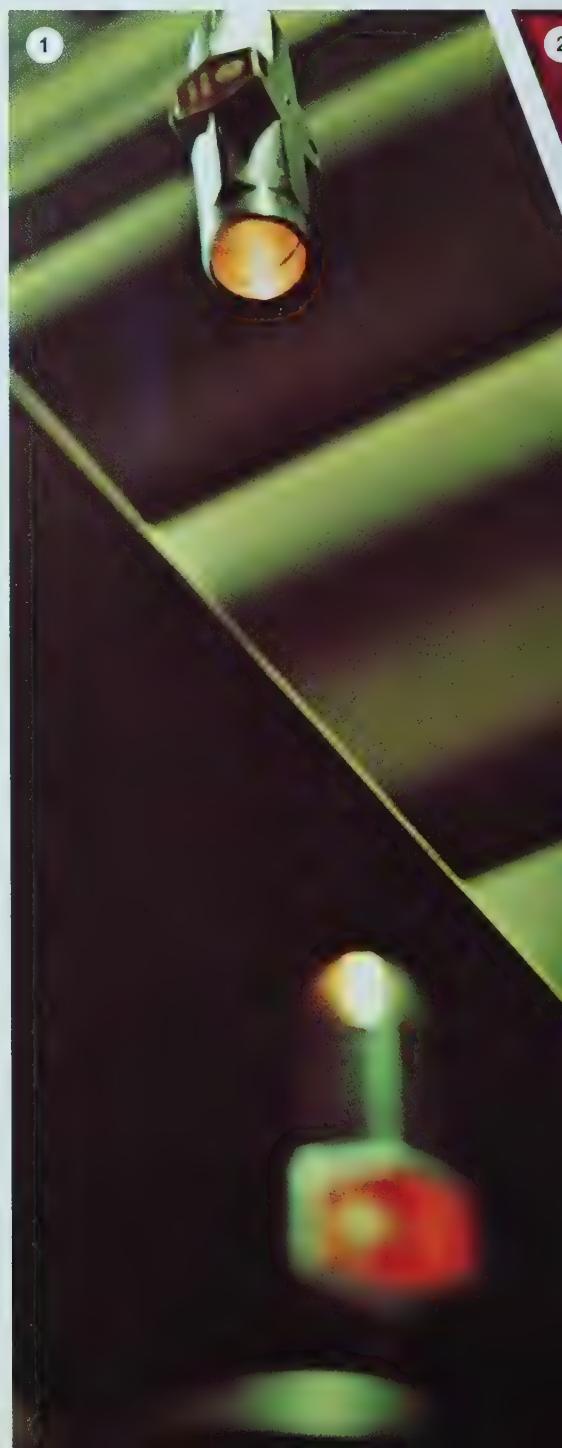


Only a few years ago the initial efforts were made to apply computer control to the papermaking process. The first problem was to define the complexities of this age-old art in the simple language of the computer. The interrelationships of a vast range of variable factors had to be broken down into logical steps and analyzed. To measure and control these variables, it was necessary to translate the hundreds of intuitive judgments made by our skilled operators into the mathematical language of the computer.

The preliminary goal was established—to develop a system for the automatic collection of operating data to serve as a manufacturing guide. The process was attacked a step at a time. By isolating one or two variables, their effects on the finished sheet of paper could be analyzed.

But even this limited approach was far from simple. Appropriate sensing instruments didn't exist—we had to invent a number of them for particular jobs. Today,

- 1 A ray of light and a photoelectric cell silently scan a sheet of linerboard on one of our paper machines at Georgetown. Should this sheet break, the computer signals the machine control system to put it on standby status and enters the resulting downtime in the machine operating log. This device has also been used to provide an instantaneous record of machine conditions at the time a break occurs.
- 2 At the control station of the smoothing press an operator checks on paper machine speeds. Various sections of a machine run at different speeds to maintain sheet tension at the proper level as it dries. Speeds of these interrelated sections are now computer controlled.
- 3 In the operation of this bleach plant, rate of production, chemical additions, temperature and brightness of the pulp are picked up by the computer from this bank of indicators and recorders. The print-out sheet advises operators of the condition of the process and product.
- 4 Next steps are the order of business for these technicians. Step-by-step they are planning the extension of closed-loop controls to additional phases of the overall mill process.



throughout our mill at Georgetown, South Carolina, where we introduced this program, and at other mills, sensing devices are in place providing continuous process measurements. These measurements are converted into electrical signals, and then into the mathematical code of the computer to be analyzed, recorded or stored in the computer memory for future reference at the rate of thousands of pieces of data every second.

With completion of this first phase, it became possible to introduce direct computer control, again by small steps. At Georgetown we initially introduced computer controls in parts of the pulp mill; then, on a paper machine, weight and moisture control.

A later development now makes it possible to control with the computer the complex interrelationships of machine grade

changes, sharply reducing the non-productive time that used to be required to swing a machine from one grade to another.

During 1968 a degree of computer control will be extended to five other mills. As new techniques are developed and proved at these mills they will be extended to others.

Even at this stage the results of computerization are impressive. Product uniformity and quality are far more precisely controlled. Operating costs and raw material requirements have been reduced, and output of the highest-quality products per machine hour has been increased. But most important of all, in seeking to establish eventual computer control of the papermaking process, we have developed greater understanding of the dynamics of the process itself.



Standard Costs



- 1 As a finished reel of paper is swung away from the dry end of the giant Vicksburg machine, an operator enters weight and other identifying data into the computer data collecting system. The basis of a reliable Standard Cost System is the measurement of usage and production data as they occur.
- 2 A high degree of instrumentation is a feature of the central pulp mill control room at Vicksburg. Continuous operating records are transmitted to the mill computer, where actual conditions are compared to standards.
- 3 In the Mobile finishing room hundreds of different paper items are cut to size, trimmed, sorted, inspected and packaged every day. This device records the flow of paper at the point where rolls from the paper machine are automatically cut into sheets.
- 4 The blurred streak at the lower left is pulpwood chips flashing up an automatic conveyor as they start their journey to the pulp mill and paper machine. The scale in the foreground was devised to weigh continuously this fast-moving ribbon of chips, providing an accurate measurement of fiber actually used.
- 5 Power is an important cost item in paper manufacturing. As part of our Standard Cost System, actual operating conditions in our highly instrumented chemical recovery boilers are recorded for analysis by the mill computer.

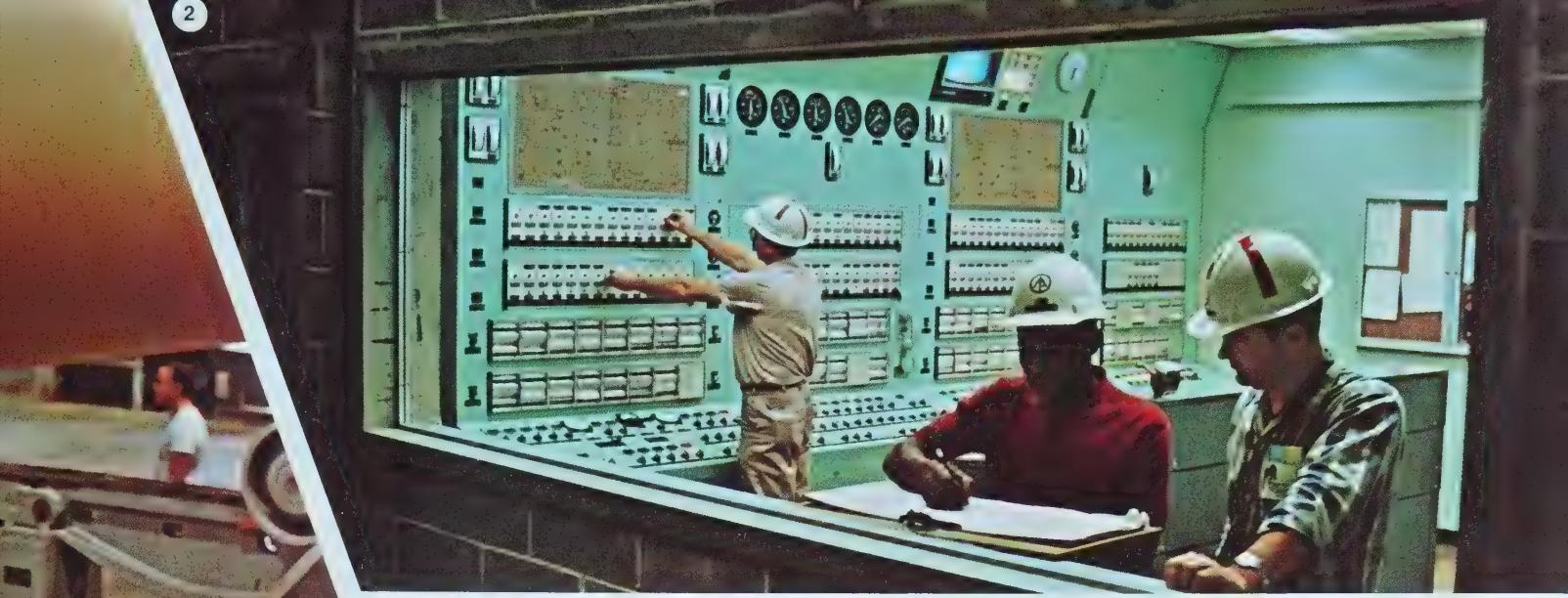
In a manufacturing company as diversified as International Paper, prompt cost information and positive control of costs are essentials of effective management. One of our most promising new applications is our development of a computer-based Standard Cost System.

At the mills the data base for the System grows out of a detailed analysis of the manufacturing operation. In this analysis the entire mill flow was broken down to establish a series of cost centers from the woodyard to the shipping dock. Sophisticated instrumentation was installed to provide an operating record from each center that is translated into costs by our computers and compared against previously determined standards for each center.

There is another valuable benefit from this detailed, automated cost system. With cost measurements available, the cost components of each of our thousands of production items can be isolated. Linerboard is a good example. Often thought of as a prosaic commodity item, I-P's linerboards include not only standard linerboards but 34 specialty boards as well. These come in a range of colors plus such items as wet-strength, grease-resistant, mold-proof, non-abrasive and skid-resistant boards. Each grade comes in different weights, finishes and trim sizes. Each has its own recipe — fiber content, pulping chemicals, steam and power requirements, and direct labor usage, all of which vary from product to product. These factors are the essential cost components of each grade. Working with these cost factors and machine output per hour, our computers provide management with a guide to the most profitable product mix under given market conditions.

Marketing management benefits from the output of our Standard Cost System. Annual Profit Plans are based on a solid foundation of product cost information. Working from this established cost information, Annual Marketing Plans are constructed to achieve maximum profitability for the Company as a whole — mill-by-mill, machine-by-machine, grade-by-grade.





Profit Planning



- 1 Every year our Marketing staff prepares an exhaustive forecast of demand based on estimated requirements for every customer. Here an I-P salesman visits a paper merchant's warehouse to review his inventory levels and business forecasts for the coming year.
- 2 Members of our newly formed Strategic Planning Office conduct frequent reviews of economic factors affecting our markets. Their forecasts become an important consideration in the build up of the Company's Annual Sales Plans and in the preparation of five-year Business Plans.
- 3 Web offset printing has been one of the fastest-growing fields in the printing industry in recent years — and is projected to grow even faster. I-P salesmen work closely with customer printers to define growth trends and determine paper requirements.
- 4 A potential new field for specialized paper packaging is containerization of air freight. In preparing forecasts for future market requirements, I-P salesmen have studied freight-handling methods for all types of transportation systems to explore new uses for paper packaging.
- 5 As each year progresses, regular reports prepared by our computers are made to management detailing variances from approved divisional Profit Plans. The reports reflect sales transactions as they are captured by the computer. Timely reporting of variances from Plan is an essential factor in initiating effective corrective measures.



4

International Paper's Marketing Divisions provide thousands of products every day to customers throughout most of the world. Preparation of a comprehensive marketing plan and a timely reporting system covering each of these products and markets have been laborious tasks. But with our new computer capability, planning and reporting have become manageable functions. Our Marketing staff is armed with the current facts of product costs and market developments.

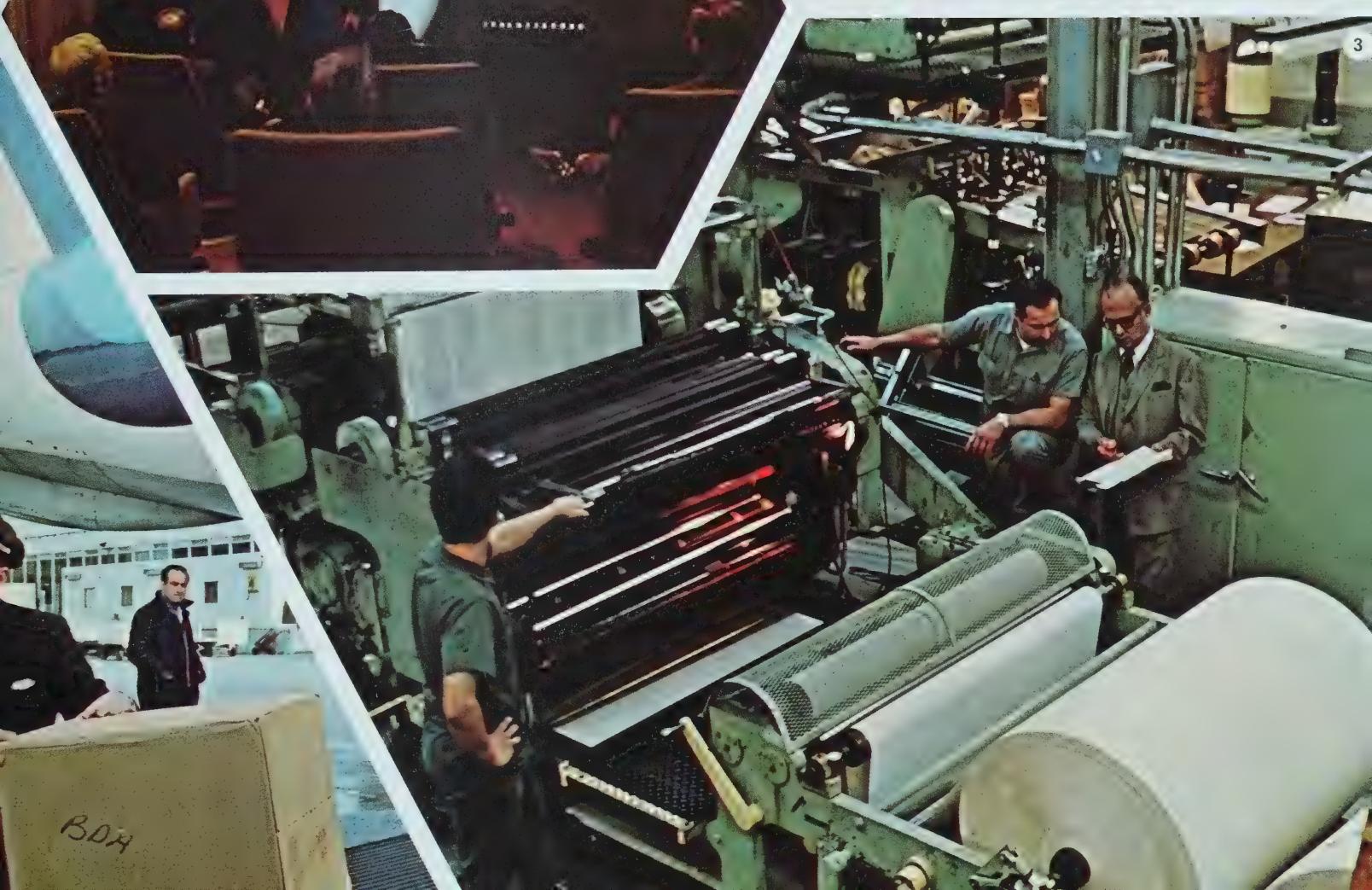
The basic concept of our new planning techniques charges Manufacturing management with responsibility for running our operations profitably at minimum costs. Marketing management is responsible for the profits generated by the sale of our products.

Our Profit Plan begins with our markets. Its basic ingredient is an Annual Sales Plan for each profit center based on a detailed customer-by-customer, product-by-product review. Pricing trends, consideration of the competitive environment, the impact of new products and the effect of special sales efforts are all taken into account. The overall Company Sales Plan is finally converted into a Profit Plan by applying cost data from our Standard Cost System. This material is assembled, analyzed and stored in our computers.

As the year goes on, every sales transaction is captured by a computer from our Order-Billing/Telecommunications System. The tremendous volume of sales data accumulated every day is now automatically assembled in a form that permits comparison with the Profit Plan.

If performance all along the line is to be properly appraised by management, a precise and prompt record of variances from Plan, together with the explanation of significant variances, is essential. Again, with the speed and capacity of our computers, we can calculate the reason for profit variations in terms of volume, prices, freight differentials and manufacturing costs, and pinpoint responsibility for variances to the appropriate cost or profit center. The ability to identify areas causing significant variations from Plan — early enough to permit corrective action — is a key to effective management.





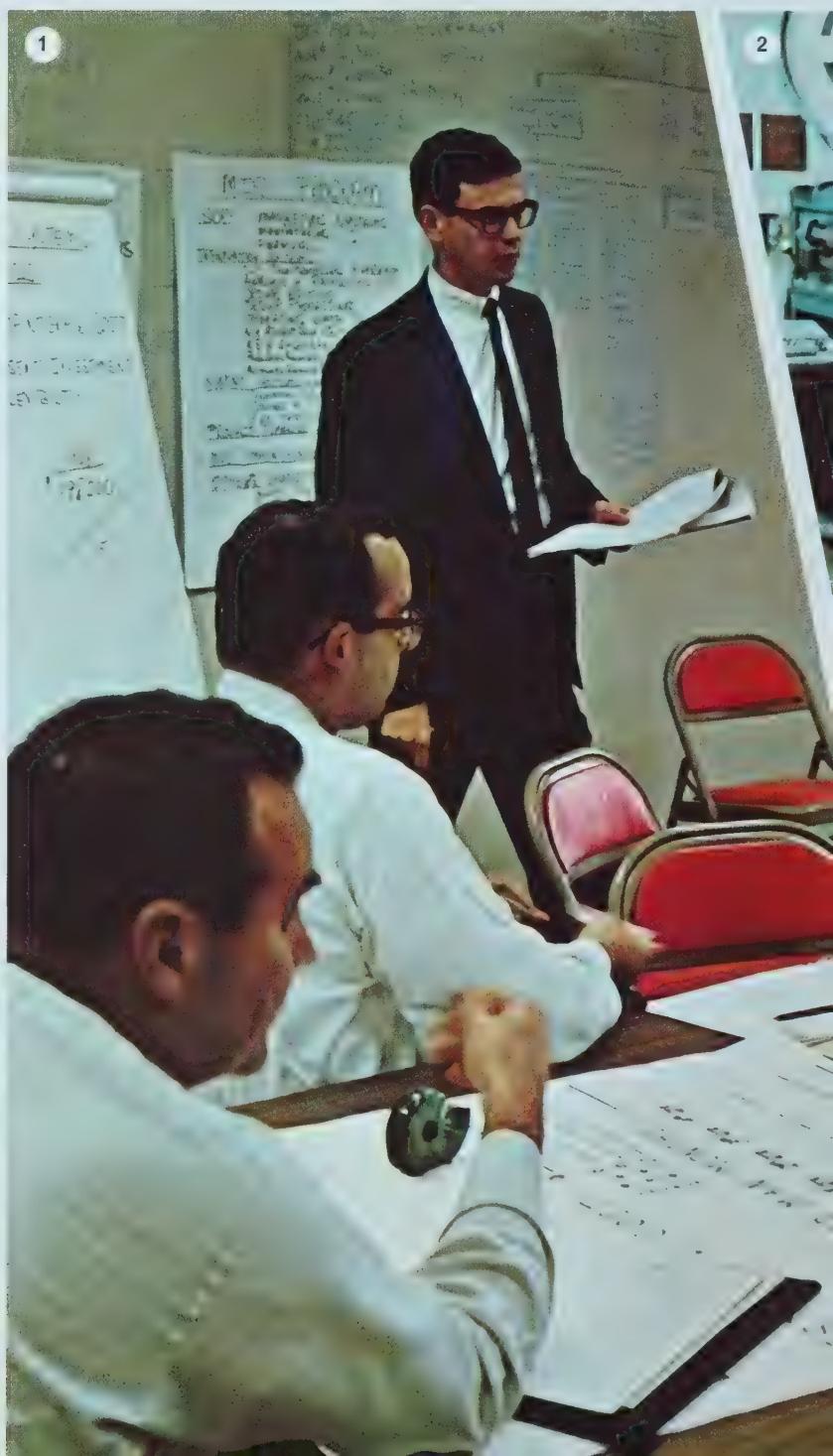
Telecommunications



One of the consequences of the new management systems now in effect within International Paper is a quantum increase in the generation of essential management information. The key to full exploitation of the profit potential of these systems is a rapid mechanism for collection and distribution of information.

Most of this data today flows through our new Telecommunications System. One of the most advanced industrial information systems in operation, it combines the power of our computers with the efficiency of a leased-wire teletype network. The primary role of one computer in our New York Computer Center is to monitor the status of teletype lines,

- 1 Systems analysts and computer technicians spent months of planning in the development of I-P's new computer-based Telecommunications System. The special information requirements for all locations had to be considered in establishing this data transmission network.
- 2 Cards punched at this weighing station are attached to each roll of linerboard. These cards carry all essential production and grade data for every roll shipped to our Container Division plants. As the cards are punched, a record of the roll movement is entered into the inventory system.
- 3 An average of 8000 messages a day flow over our new Telecommunications System, which encompasses 155 teletype printer stations at 65 I-P locations. We are adapting the System during 1968 to include advanced visual terminal units for instantaneous inventory inquiry and order entry.
- 4 At a Container Division plant an identifying punched card is removed from a linerboard roll. The information on this card, entered into our Telecommunications System, will automatically update the Division's inventory. Later, when the paperboard is fabricated, another card will be removed adjusting inventory records.

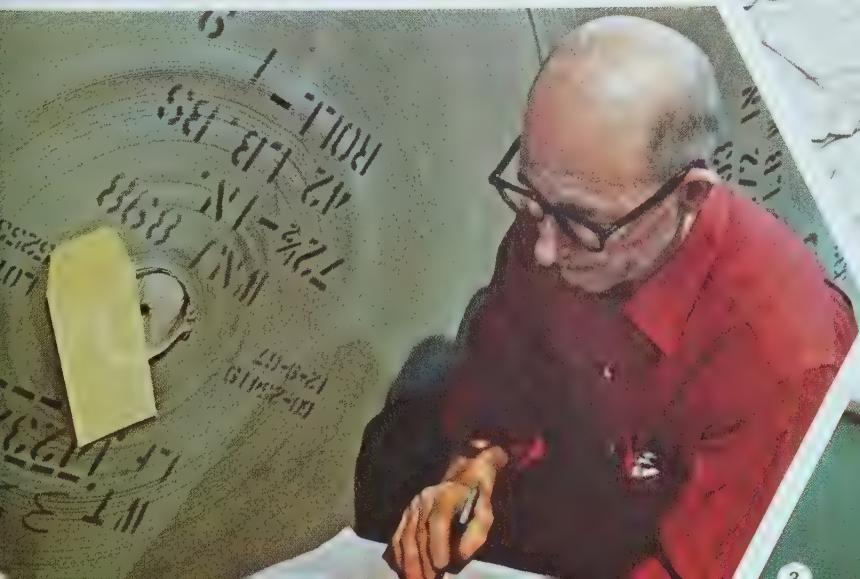
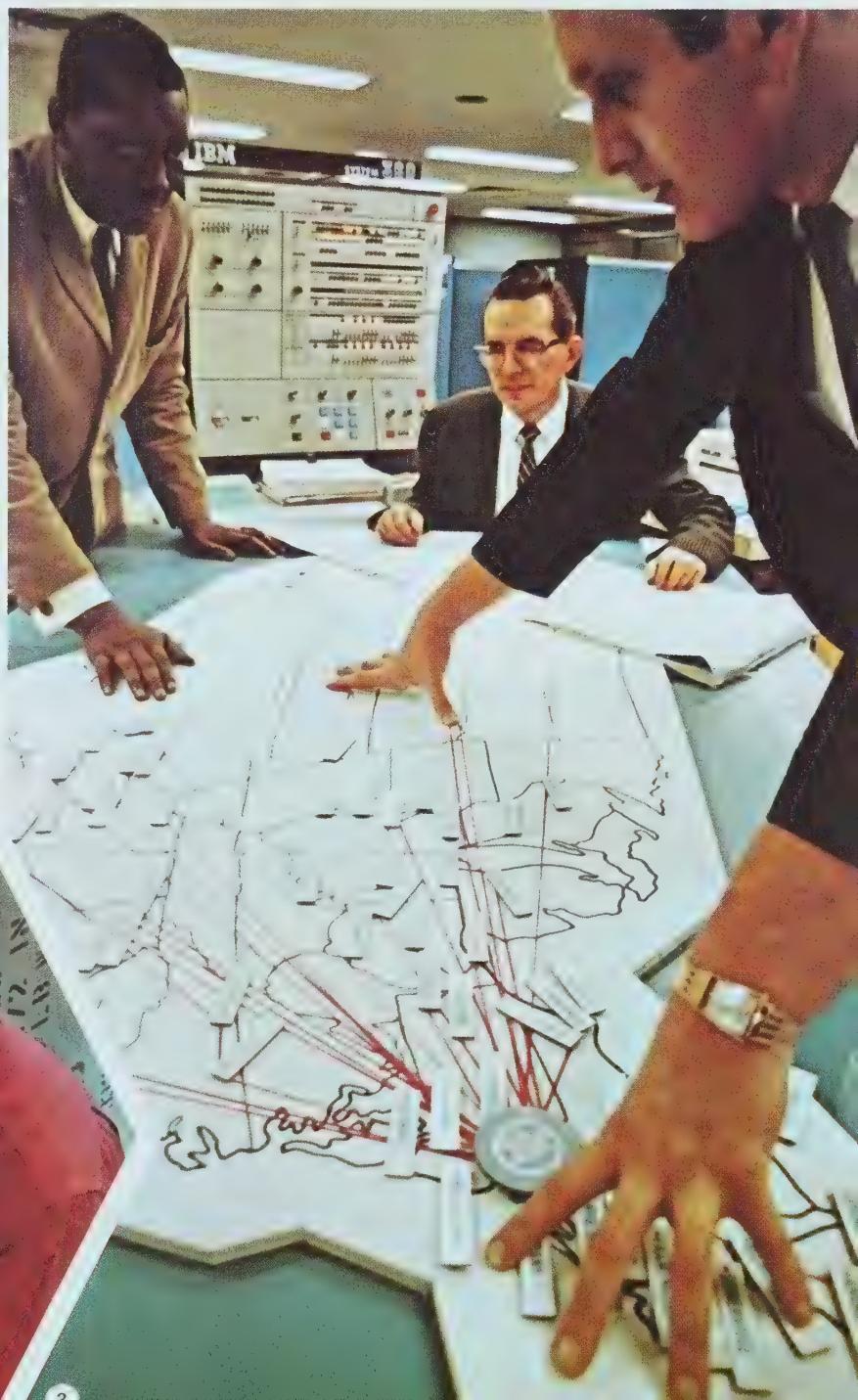


maintain an orderly traffic flow to and from every destination on the System, maintain a message log and retain in its memory for retrieval as necessary all messages filed during the preceding 48 hours.

The System processes the normal flow of messages and directives common to any large enterprise. It also processes a vast flow of sales information and cost and financial data. For example, orders for all primary products from every Regional Sales Office now move through this network. A reverse feedback from the mills and plants reports each shipment. Our central computer is

programmed to capture every transaction and to initiate required administrative action—at the same time entering a record of each transaction into the Profit Plan.

A special system has been developed to aid the Container Division in controlling its roll stock inventory. Data from each plant comes in over our leased-wire network for transmission to the Division's central computer at Whippany, New Jersey. This computer analyzes the data and automatically places roll stock replenishment orders to maintain the desirable inventory balance for the entire Division.



Woodlands Information System

1



- 1 More than 700,000 acres of pine plantations have been established in the South by I-P over the past 20 years. Complete data for every acre has been recorded in the field and entered in our computers in a comprehensive classification study for management and harvesting purposes.
- 2 A hardwood swamp is surveyed by an I-P forester, who will prepare a logging plan for this area to develop maximum earnings. Large, well-formed trees will be sold for veneer or sawlogs, with the chips being resold to our mills. Other trees will be marked as pulpwood.
- 3 Spacing of seedlings has a marked effect on rate of plantation growth. This plot at our Southlands Experiment Forest is part of a broad computer study of spacing and other factors to develop new planting procedures to assure faster-growing plantations.
- 4 This little pine inherited a crooked trunk, which it will pass along to all of its descendants. As part of our long-range study of forest genetics, we have learned to control trunk straightness, a highly inheritable and very desirable trait in trees grown for commercial use. This computerized study of forest genetics is the largest ever conducted.



A group in the Woodlands section of our Southern Kraft Division was among the first in our Company to exploit the use of computers as a tool for the extension of modern management techniques. Today our Woodlands organization is making far-reaching use of computers — as a research tool, as an aid to day-by-day operations and as a guide to increased future earnings from the Company's forest resources.

A thorough computerized analysis of available wood is now complete for each of our Southern procurement areas, covering both Company land and lands of others. Based on forecast production requirements for our mills and the volume of wood that managers feel they can provide from each area, the computers produce an Annual Logging Plan for each mill.

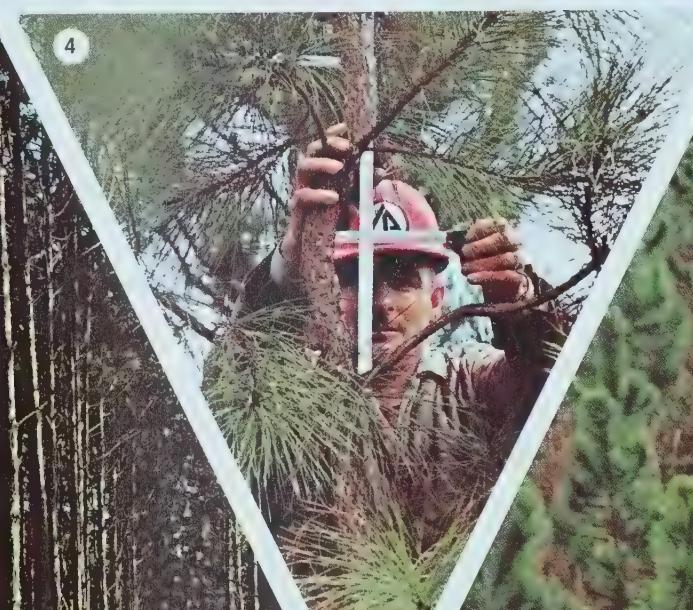
Based on the longer-range planning system, a Wood Order Guide is prepared every four weeks to give a "least-cost" pulpwood shipping schedule from 450 shipping points to our 11 Southern mills. The computer can relate such factors as pulpwood purchase prices, freight and handling costs, and the wood species mix required.

We are well advanced on an even broader computer study, which will classify the timber on every stand on our lands. This study will indicate silvicultural treatment and harvest programs for each stand. From it a precise plan will be drawn showing what trees to cut, when to cut them and the best end use — pulpwood for our own mills, or sawlogs, poles or veneer logs for sale. The aim of this study is to maximize forest utilization and profitability.

Analysis of the massive scientific data stemming from our long-range research into forest genetics and the inherited characteristics of trees could never have been done without our computers. We have learned to manipulate the inherited factors that control the growth of a tree and its yield of marketable fiber to develop supertrees for tomorrow's forests. By 1974 every one of the 35 million seedlings that will be planted annually on Company-owned lands will be from genetically improved seed. These plantations will grow faster and produce more fiber per acre and, we expect, more fiber per cord.



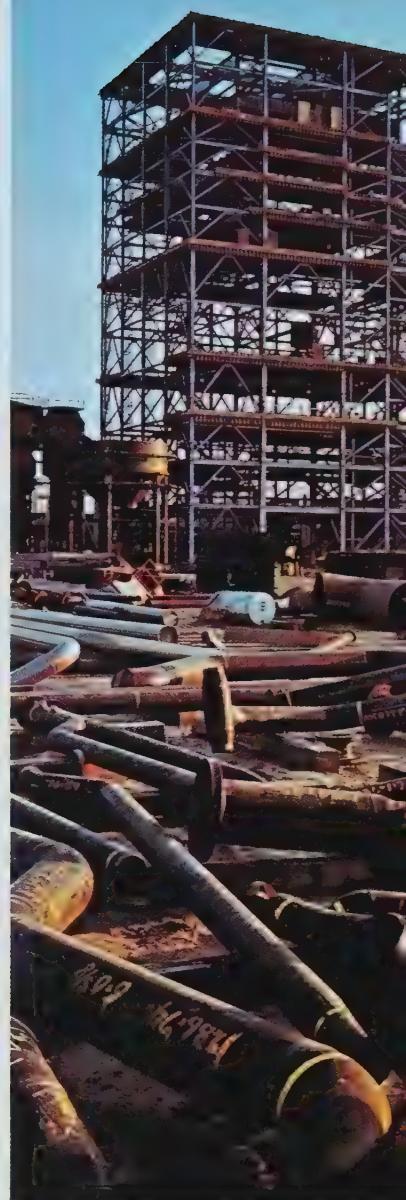
4



Engineering



Some feeling of the scope and complexity of a major paper mill construction project can be realized from these progress pictures taken last year at our new Vicksburg mill. The work of hundreds of construction workers, skilled craftsmen, technicians and engineers had to be scheduled months in advance to reflect anticipated shipments from suppliers and completion of various steps in construction. By providing a means of testing various alternatives, the computerized Critical Path method of construction planning helped our engineers develop least-cost plans for the job. Even wider use of this concept is planned.



In the broad employment of computers at I-P, our Southern Kraft Engineering Departments have developed some of the most interesting applications. Using the computer's ability to analyze and complete thousands of calculations at incredible speed, our engineers now solve in minutes or hours engineering problems that used to require weeks of manual work.

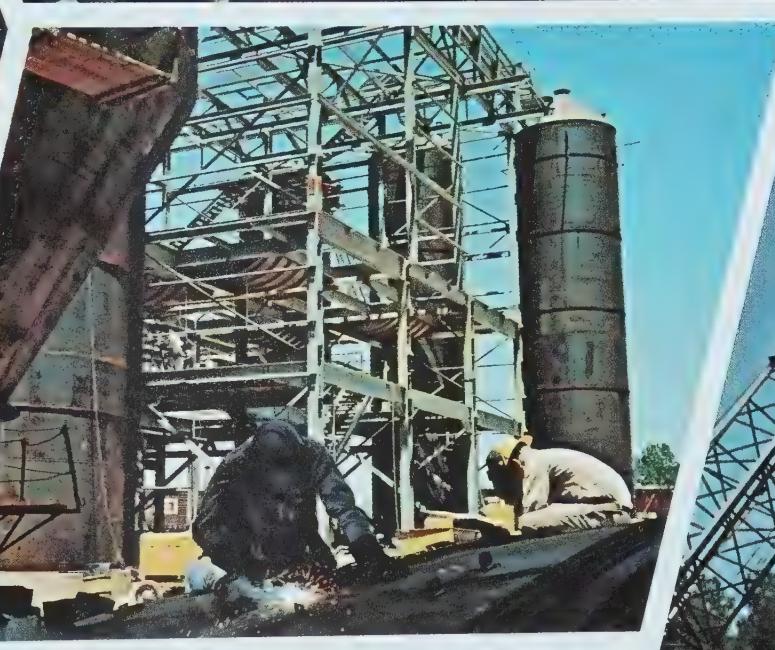
One of our first applications was a Short Circuit and Relay Setting Study, which provided a guide for the most efficient setting of power plant circuit breakers to maintain a high safety factor and avoid lost production. Later our Engineering groups developed computer techniques for a variety of regular engineering and construction applications that are both economical and helpful in plugging the gap created by the shortage of technical manpower.

Our Southern Kraft Engineering Department has developed a complete control system for construction projects that is an adaptation of the Critical Path scheduling method. This is a highly sophisticated system for controlling complex projects involving a large number of people. The system enables us to schedule equipment deliveries and manpower allocation effectively and to maintain detailed cost records on every phase of construction.

Using the Critical Path method as a basic guide, alternative approaches to the massive detail planning of the Vicksburg mill construction were tested in advance and an optimum plan decided upon before work began. By identifying and concentrating on those key jobs that ultimately determine the project length, effective planning of supplier delivery schedules could be positively related to the best utilization of available manpower.

Based on this experience, many other engineering jobs are now being planned and controlled by our computers. For instance, paper machine rebuilds, involving expensive interruption of production, are rehearsed several times on the computer before actual work is started. The result—increased production through reduction in downtime and savings in manpower and money.





Consolidated Earnings Statement

For the Years Ended December 31

1967

1966

Income:		
Net sales	\$1,414,494,643	\$1,450,061,645
Profit on foreign exchange	11,413,264	10,751,973
Other income — net	6,504,738	5,847,491
	<hr/>	<hr/>
	1,432,412,645	1,466,661,109
Costs and expenses:		
Cost of goods sold exclusive of items listed below	1,021,213,897	1,011,701,143
Freight and delivery expense	105,825,137	110,337,941
Selling, general and administrative expenses	83,502,790	74,799,515
Depreciation and depletion	77,001,677	79,696,763
Interest	8,783,235	1,803,926
	<hr/>	<hr/>
	1,296,326,736	1,278,339,288
Earnings before income taxes	136,085,909	188,321,821
Provision for income taxes — U.S. and foreign (Note 3)	47,300,000	83,100,000
Net earnings	<hr/> \$ 88,785,909	<hr/> \$ 105,221,821
Earnings per share of common stock *	<hr/> \$ 2.03	<hr/> \$ 2.40

* Computed on basis of average number of shares outstanding which were 43,576,240 shares for 1967 and 43,645,813 shares for 1966.

Consolidated Statement of Retained Earnings

For the Years Ended December 31

1967

1966

Balance — beginning of year	\$439,553,099	\$388,825,429
Net earnings	88,785,909	105,221,821
	<hr/>	<hr/>
528,339,008	494,047,250	
Less: Cash dividends —		
\$4 preferred stock (\$4.00 per share)	475,760	480,860
Common stock (per share: 1967 — \$1.35; 1966 — \$1.23 ^{3/4})	58,836,175	54,013,291
	<hr/>	<hr/>
59,311,935	54,494,151	
Balance — end of year	<hr/> \$469,027,073	<hr/> \$439,553,099

The accompanying notes are an integral part of these statements.

Consolidated Statement of Source and Application of Funds

For the Years Ended December 31

1967

1966

Source of Funds:

Net earnings	\$ 88,785,909	\$105,221,821
Depreciation and depletion	77,001,677	79,696,763
Provision for deferred income taxes	10,054,069	7,404,720
Total funds from operations	<u>175,841,655</u>	<u>192,323,304</u>
Long-term borrowings	101,256,696	76,553,569
	<u>\$277,098,351</u>	<u>\$268,876,873</u>

Application of Funds:

Cash dividends paid	\$ 59,311,935	\$ 54,494,151
Invested in plants and properties, net	218,108,837	144,852,790
Invested in woodlands, net	20,374,584	55,079,373
Purchases of common stock for treasury	4,191,139	1,004,871
Other investments, etc., net	18,159,683	7,169,901
Increase (decrease) in working capital	<u>(43,047,827)</u>	<u>6,275,787</u>
	<u>\$277,098,351</u>	<u>\$268,876,873</u>

The accompanying notes are an integral part of this statement.

Consolidated Balance Sheet

Assets at December 31	1967	1966
Current Assets:		
Cash	\$ 38,949,696	\$ 34,630,691
Temporary investments — at cost which approximates market	11,488,066	55,548,971
Accounts receivable (less reserves for doubtful accounts: 1967 — \$3,528,436; 1966 — \$3,124,193)	182,289,157	175,574,134
Inventories (Note 2)	207,787,663	190,176,907
Total Current Assets	<u>440,514,582</u>	<u>455,930,703</u>
Capital Assets:		
Plants and properties (Note 3)	1,686,850,945	1,491,047,863
Less: Reserves for depreciation (Note 3)	889,531,448	838,073,745
Net plants and properties	797,319,497	652,974,118
Woodlands — net (Note 4)	155,762,806	138,626,441
Investments and advances (Note 5)	38,079,429	27,051,416
	<u>991,161,732</u>	<u>818,651,975</u>
Other Assets and Deferred Charges:		
Receivables — not current	11,969,933	10,054,357
Prepaid insurance and taxes	3,292,303	3,324,498
Deferred charges	22,961,999	16,669,697
	<u>38,224,235</u>	<u>30,048,552</u>
	<u><u>\$1,469,900,549</u></u>	<u><u>\$1,304,631,230</u></u>

The accompanying notes are an integral part of this statement.

Liabilities and Shareholders' Equity at December 31	1967	1966
Current Liabilities:		
Accounts payable	\$ 84,243,402	\$ 96,782,685
Notes payable to banks	62,500,000	—
Accrued income taxes —		
U.S. Federal and state	12,354,338	37,627,625
Canadian and other foreign	2,844,746	4,254,126
Other accrued liabilities	43,260,092	38,906,436
Total Current Liabilities	205,202,578	177,570,872
Long-term Liabilities (Note 6)	177,810,265	76,553,569
Reserves:		
Insurance	3,202,076	2,843,346
Contingencies	6,611,127	5,947,304
Deferred income taxes	30,807,127	20,753,058
	40,620,330	29,543,708
Shareholders' Equity (Notes 7 and 8):		
Cumulative \$4 preferred stock, no par value	11,894,000	11,894,000
Common stock, \$2.50 par value	109,322,058	109,319,898
Capital from conversion of 5% preferred stock	40,430,070	40,430,070
Capital surplus	421,059,396	421,040,096
Retained earnings	469,027,073	439,553,099
	1,051,732,597	1,022,237,163
Less: Common shares held in treasury, at cost	5,465,221	1,274,082
	1,046,267,376	1,020,963,081
	\$1,469,900,549	\$1,304,631,230

Notes to Financial Statements

1. Basis of Reporting

The consolidated financial statements include the accounts of all wholly owned domestic and foreign subsidiaries. The Companies' interests in certain insignificant majority owned subsidiaries and in all partially owned affiliated companies are shown as investments.

Foreign currency items included in the consolidated balance sheet are substantially all Canadian and have been expressed in terms of U.S. dollars at the rate of \$.92½ U.S. for the Canadian dollar, except that capital assets acquired prior to April 30, 1962 and inventories (principally on the last-in, first-out basis) are stated at \$1.00 U.S. for the Canadian dollar. Total assets of foreign subsidiaries amount to \$413,397,905 at December 31, 1967 and \$359,248,878 at December 31, 1966.

Sales of Canadian subsidiaries are to a large extent made in U.S. dollars while most of their costs and expenses are incurred in Canadian dollars. The Canadian accounts included in the consolidated earnings statement do not differentiate between U.S. and Canadian dollars and have consistently been consolidated on that basis. All realized exchange profits or losses and the adjustments to express Canadian dollar amounts in terms of U.S. dollars, as described above, are shown separately as profit on foreign exchange.

2. Inventories

Inventories are priced generally on the following bases: (a) raw materials, finished paperboard, paper, market pulp, etc., and lumber at manufacturing plants at the lower of cost (determined substantially under the last-in, first-out method) or market value; (b) repair materials and other operating supplies, lumber products and plywood at manufacturing plants at the lower of cost (first-in, first-out or average) or market value; and (c) merchandise at retail building-material stores, etc., at the lower of cost (first-in, first-out) or market value. Inventories at December 31, 1967, by major classifications, were as follows:

Raw materials:

Pulpwood and saw logs at mills	\$33,595,145
Logging operations in process	30,733,176
Other raw materials	15,319,741
	\$ 79,648,062

Repair materials and other operating supplies

36,362,555

Finished products:

Paperboard, paper, market pulp, etc.	68,481,033
Lumber, plywood and lumber products at manufacturing plants	11,671,010
	80,152,043
Merchandise at retail building-material stores, etc.	11,625,003
Total	\$207,787,663

3. Plants and Properties

Plants and properties at December 31, 1967 were as follows:

	Cost	Reserves for Depreciation	Net
Paper and pulp mills	\$1,296,142,117	\$674,408,754	\$621,733,363
Paper converting plants	198,106,918	95,346,760	102,760,158
Sawmills, plywood and lumber product plants	73,833,905	48,839,307	24,994,598
Woods plant and equipment	77,404,531	47,409,294	29,995,237
Other properties	41,363,474	23,527,333	17,836,141
Total	\$1,686,850,945	\$889,531,448	\$797,319,497

The Companies compute depreciation on a straight-line method for financial reporting purposes and for tax purposes the Companies use accelerated methods. The use of accelerated depreciation for tax purposes has resulted in additional tax deferrals which have been included in deferred income taxes.

Taxes on income have been reduced by investment tax credits of \$14,627,456 in 1967 and \$2,820,102 in 1966.

4. Woodlands

Woodlands at December 31, 1967 were as follows:

	Acres *	Amount †
United States:		
Owned in fee	6,491,924	\$131,614,088
Held under lease or contract rights	354,530	11,101,942
Total — United States	6,846,454	142,716,030
Canada:		
Owned in fee	1,356,869	7,173,650
Held under Government license	14,686,356	5,873,126
Total — Canada	16,043,225	13,046,776
Total	22,889,679	\$155,762,806

* As reported by the Companies.

† Stated at cost less depletion.

5. Investments and Advances

Investments and advances at December 31, 1967 were as follows:

Securities of and advances to non-consolidated affiliated companies, at cost	\$36,040,042
U.S. Government and municipal securities, at cost which approximates market	1,596,302
Other securities, at cost	443,085
Total	<u>\$38,079,429</u>

6. Long-term Liabilities

Long-term liabilities at December 31, 1967 were as follows:

Notes payable:

International Paper Company — 5 1/8%, due 1972 to 1986 *	\$130,000,000
Canadian International Paper Company — 5 7/8%, due 1972 to 1986	30,000,000
Other	17,810,265
Total	<u>\$177,810,265</u>

* In 1968 \$20,000,000 will be borrowed at 5 1/8% under the terms of Loan Agreements with two insurance companies. Additional agreements with the insurance companies call for \$50,000,000 borrowings in 1968 and \$100,000,000 borrowings in 1969 at 6 3/8% interest with repayment from 1974 to 1988.

7. Capital Surplus

The following is a summary of transactions in capital surplus for the year ended December 31, 1967:

Balance — beginning of year	\$421,040,096
Excess of sales proceeds over par value of common shares sold under Incentive Stock Option Plan, etc.	19,300
Balance — end of year	<u>\$421,059,396</u>

8. Capital Stocks at December 31, 1967

	\$4 Preferred *	Common Stock
Shares authorized	400,000	<u>72,000,000</u>
Shares issued	230,579	43,728,823
Less: Shares in treasury (19,695 shares of common stock reserved for issuance under the Incentive Compensation Plan)	111,639	257,749
Shares outstanding	<u>118,940</u>	<u>43,471,074</u>

* Callable at \$105 per share.

Stock Option Plan 1,023,364 authorized but unissued shares are reserved under an Incentive Stock Option Plan for Key Employees. Rights to purchase 20% of the shares covered by each option accrue to the optionee on each of the first five anniversaries of the date of grant, subject to termination as defined in the Plan. The following changes in unissued shares reserved under the Plan occurred in 1967:

	Under Option	Available for Grant
Balance — beginning of year	433,860	590,311
Changes during 1967 — add or (<i>deduct</i>):		
Shares for which options were granted	1,000	(1,000)
Shares issued on exercise of options	(807)	—
Shares applicable to options terminated	<u>(51,996)</u>	<u>51,996</u>
Balance — end of year	<u>382,057</u>	<u>641,307</u>

The original option price was 100% of the last sale price on the New York Stock Exchange on the date of grant for those options granted after 1964; 95% for those granted in prior years. Prices on options outstanding at December 31, 1967, adjusted for the stock split and stock dividends subsequent to grant dates, ranged from \$26.50 to \$33.96 per share, and averaged \$32.89.

9. Retirement Plans

Reference is made to page 28 with respect to status of the employees' retirement plans.

	1967	1966	1965	1964
Consolidated Earnings Data (000 Omitted)				
Sales	\$1,414,495	\$1,450,062	\$1,303,741	\$1,245,857
Other Income Items	\$ 17,918	\$ 16,599	\$ 19,343	\$ 15,192
Depreciation and Depletion	\$ 77,002	\$ 79,697	\$ 89,173	\$ 80,065
Provision for Income Taxes	\$ 47,300	\$ 83,100	\$ 63,000	\$ 66,930
Net Earnings	<u>\$ 88,786</u>	<u>\$ 105,222</u>	<u>\$ 88,545</u>	<u>\$ 81,330</u>
Cash Dividends Paid (000 Omitted)				
On Preferred Stock	\$ 476	\$ 481	\$ 525	\$ 573
On Common Stock	58,836	54,013	54,557	50,689
Total	<u>\$ 59,312</u>	<u>\$ 54,494</u>	<u>\$ 55,082</u>	<u>\$ 51,262</u>
Stock Dividends Paid	—	—	—	—
Statistics Per Share of Common Stock *				
Provision for Income Taxes	\$ 1.09	\$ 1.90	\$ 1.44	\$ 1.54
Net Earnings	<u>\$ 2.03</u>	<u>\$ 2.40</u>	<u>\$ 2.02</u>	<u>\$ 1.85</u>

* Computed on basis of average number of shares outstanding during each year.

1963

1962

1961

1960

1959

1958

\$1,144,632	\$1,095,672	\$1,044,776	\$1,012,648	\$1,030,209	\$915,143
\$ 20,852	\$ 11,519	\$ 13,518	\$ 2,451	\$ 3,035	\$ 4,396
\$ 72,378	\$ 70,700	\$ 59,248	\$ 59,385	\$ 57,434	\$ 47,595
\$ 63,591	\$ 58,107	\$ 62,543	\$ 68,848	\$ 77,545	\$ 67,505
\$ 69,422	\$ 67,055	\$ 72,002	\$ 71,668	\$ 83,611	\$ 72,001
\$ 625	\$ 665	\$ 712	\$ 770	\$ 838	\$ 896
45,062	44,721	43,112	40,730	39,341	38,317
\$ 45,687	\$ 45,386	\$ 43,824	\$ 41,500	\$ 40,179	\$ 39,213
2%	2%	2%	2%	2%	2%
\$ 1.46	\$ 1.34	\$ 1.44	\$ 1.59	\$ 1.79	\$ 1.56
\$ 1.58	\$ 1.53	\$ 1.64	\$ 1.63	\$ 1.91	\$ 1.65

Consolidated Balance Sheet Statistics (000 Omitted)

(At December 31)	1967	1966	1965	1964
Assets (less liabilities):				
Current assets —				
Cash and equivalent	\$ 50,438	\$ 90,180	\$ 94,446	\$111,974
Receivables — net	182,289	175,574	156,573	146,801
Inventories	207,787	190,177	178,496	167,670
Total current assets	440,514	455,931	429,515	426,445
Less: Current liabilities	205,202	177,571	157,431	152,588
Working capital	<u>235,312</u>	<u>278,360</u>	<u>272,084</u>	<u>273,857</u>
Capital assets —				
Plants and properties — net	797,320	652,974	575,750	537,035
Woodlands — net	155,763	138,626	95,615	98,301
Investments	38,079	27,051	25,489	22,919
Total capital assets	991,162	818,651	696,854	658,255
Other assets and deferred charges	38,224	30,049	24,073	24,208
Long-term liabilities	<u>(177,810)</u>	<u>(76,553)</u>	<u>—</u>	<u>—</u>
Total	\$1,086,888	\$1,050,507	\$993,011	\$956,320
Reserves and Shareholders' Equity:				
Reserves	\$ 40,621	\$ 29,544	\$ 21,347	\$ 17,761
Shareholders' equity —				
Preferred	11,894	11,894	12,454	13,574
Common	1,034,373	1,009,069	959,210	924,985
Total	\$1,086,888	\$1,050,507	\$993,011	\$956,320
Equity Per Common Share*	\$ 23.79	\$ 23.13	\$ 21.97	\$ 21.20

* Computed on basis of number of shares outstanding at the end of each year.

1963	1962	1961	1960	1959	1958
\$131,878	\$138,771	\$131,305	\$120,506	\$141,786	\$136,525
124,339	104,728	108,055	86,677	93,760	73,414
163,526	167,753	161,575	168,415	157,644	141,336
419,743	411,252	400,935	375,598	393,190	351,275
143,181	140,703	145,314	132,603	134,371	121,866
276,562	270,549	255,621	242,995	258,819	229,409
506,807	479,543	473,170	468,253	421,424	410,663
98,306	104,362	102,821	105,236	110,333	113,566
18,925	18,829	18,089	9,536	7,290	1,935
624,038	602,734	594,080	583,025	539,047	526,164
24,845	24,008	22,147	18,299	16,557	14,011
—	—	—	—	—	—
<u>\$925,445</u>	<u>\$897,291</u>	<u>\$871,848</u>	<u>\$844,319</u>	<u>\$814,423</u>	<u>\$769,584</u>
\$ 16,891	\$ 11,891	\$ 7,846	\$ 8,359	\$ 7,765	\$ 7,307
14,995	16,234	17,104	18,486	19,976	21,835
893,559	869,166	846,898	817,474	786,682	740,442
<u>\$925,445</u>	<u>\$897,291</u>	<u>\$871,848</u>	<u>\$844,319</u>	<u>\$814,423</u>	<u>\$769,584</u>
\$ 20.51	\$ 19.96	\$ 19.47	\$ 18.82	\$ 18.12	\$ 17.11

Status of Employees' Retirement Plans

At December 31, 1967 a total of 35,533 employees, representing approximately 86% of those eligible, were enrolled under the retirement plans of the United States and Canadian companies and 5,562 retired employees were receiving benefits. Accrued pension costs to the Companies are funded and these funds are not part of the assets of the Companies.

	Year 1967	Total to December 31, 1967
Balance of funds — beginning of periods	\$264,790,661	\$ —
Contributed by the Companies:		
For prior service benefits *	1,801,403	18,213,135
For current service benefits	8,917,993	134,164,557
Total contributions by the Companies	<u>10,719,396</u>	<u>152,377,692</u>
Contributed by employees	5,231,014	88,517,455
Earned by funds — net	12,551,823	94,274,145
	<u>293,292,894</u>	<u>335,169,292</u>
<i>Less: Paid for retirement allowances and purchase of annuities</i>	<u>6,683,999</u>	<u>48,560,397</u>
Balance of funds — end of periods	<u>\$286,608,895</u>	<u>\$286,608,895</u>

*The Companies' prior service contributions are being made at a rate which will amortize the unfunded portion (estimated at \$26 million at December 31, 1967) over a 25-year period from 1966.



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